

REPORT OF EXAMINATION
OF THE
CAREAMERICA LIFE INSURANCE COMPANY

AS OF
DECEMBER 31, 2008

Participating State
and Zone:

California

FILED: May 24th, 2010

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San Francisco, California
March 25, 2010

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Christina Urias
Secretary, Zone IV-Western
Director of Insurance
Arizona Department of Insurance
Phoenix, Arizona

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman and Commissioners:

Pursuant to your instructions, an examination was made of the

CAREAMERICA LIFE INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office, located at 50 Beale Street, San Francisco, California 94105.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2008. The present examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a

determination of liabilities as of December 31, 2008, as deemed necessary under the circumstances. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination was conducted concurrently with the examination of the Company's affiliate, Blue Shield of California Life & Health Insurance Company.

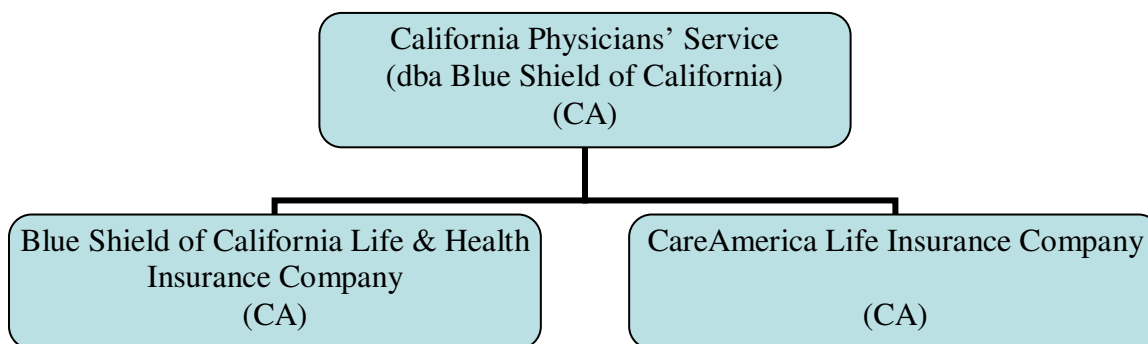
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

COMPANY HISTORY

In 2007, the Company paid an extraordinary dividend to its parent company, Blue Shield of California in the amount of \$7.0 million. The Company submitted an application for the extraordinary dividend with the California Department of Insurance per California Insurance Code (CIC) Section 1215.5(g) and received approval on February 22, 2007.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which California Physicians' Service (d.b.a. Blue Shield of California) is the ultimate controlling entity. The following organizational chart depicts the relationships of the companies within this holding company system as of December 31, 2008 (all ownership is 100%):



Management of the Company is vested in a one-member board of directors elected annually. A listing of the member of the board and principal officers serving on December 31, 2008 were as follows:

Director

Name and Residence

Bruce G. Bodaken
Mill Valley, California

Principal Business Affiliation

Chairman, President, and Chief
Executive Officer
California Physicians' Service

Principal Officers

Name

Duncan Ross
Emily R. Glidden
Seth A. Jacobs, Esq.
Christopher Gorecki
Andrea DeBerry

Title

President and Chief Executive Officer
Treasurer
Secretary
Controller
Assistant Secretary

Intercompany Agreements

Effective January 1, 2005, the Company entered into an administrative services agreement with its parent, Blue Shield of California (BSC). Under the terms of the agreement, BSC provides the Company with personnel, facilities, information systems, administrative and operations support.

Operations support includes, but is not limited to, actuarial, underwriting, premium billing and collection, claim processing, sales and marketing and various other services. The California Department of Insurance (CDI) approved this agreement on December 31, 2004. The agreement was revised effective August 30, 2005, with the revision submitted to and approved on December 21, 2005 by the CDI in accordance with the California Insurance Code Section 1215.5 (b)(4). A second amendment was filed with the CDI on December 21, 2009, and is currently being reviewed. Administrative expense reimbursements paid to BSC per this agreement are as follows: \$327,459 in 2005; \$560,373 in 2006; \$1,085,572 in 2007; and \$1,384,925 in 2008.

Effective January 1, 1987, the Company entered into a tax allocation agreement with its parent, BSC, for the purpose of filing a consolidated federal income tax return. Under the terms of the agreement, each company's regular or alternative minimum tax liability is calculated separately and adjusted for its share of specified consolidated items of income and deductions.

TERRITORY AND PLAN OF OPERATION

The Company is a California domiciled life and health insurance company with licenses in Arizona, Louisiana, Nevada, New Mexico, North Dakota, and Oregon. Direct premiums written in 2008 totaled \$2,332,543, of which California accounted for 88.1% and Arizona 11.9%. Of the total in direct written premiums, group life accounted for 81.2%, ordinary life 11.6%, group accident and health 6.9%, and other accident and health 0.3%.

The Company has no direct employees. Employees of Blue Shield of California (BSC), the Company's parent, manage the affairs of the Company.

Business is produced through approximately 17,000 independent agents and brokers, who are also sales representatives for BSC. These agents and brokers are paid commissions ranging from 0.375% to 15% for group coverage, and 15% to 20% for new individual life policies and 7% to 10% for renewals. The Company also sells its individual products through BSC's telemarketing direct sales unit and the internet.

REINSURANCE

Assumed

Blue Shield of California Life & Health Insurance Company (BSCLHIC), an affiliate, had multiple quota share reinsurance agreements with United HealthCare Insurance Company effective January 1, 2003. These agreements were terminated effective September 30, 2005 under the Novation Agreement Endorsement (Agreement) and transferred to the Company because of Blue Cross Blue Shield Association rules and regulations that prohibit BSCLHIC from transacting business in other states. The Agreement was approved by the CDI on December 16, 2004, pursuant to California Insurance Code Section 1011(c).

The following table is an outline of the Company's assumed reinsurance program as of December 31, 2008:

Assumed

Type of Contract	Reinsurer's Name	Company's Quota Share	Business
LIFE REINSURANCE			
Quota Share Life/AD&D	United HealthCare Insurance Company	90% of the insured amount	Group Term Life and AD&D coverage issued to regional trusts associated with the Printers' Industries Consolidated Trust (PICT)
ACCIDENT AND HEALTH REINSURANCE			
Quota Share Specific Stop Loss	United HealthCare Insurance Company	100% of the insured amount	Coverage issued to regional trusts associated with the PICT
Quota Share Aggregate Stop Loss	United HealthCare Insurance Company	100% of the insured amount	Coverage issued to regional trusts associated with the PICT

Ceded

The following table is an outline of the Company's ceded reinsurance program as of December 31, 2008:

Type of Contract	Reinsurer's Name (All Authorized)	Company's Retention	Reinsurer's Maximum Limits
LIFE REINSURANCE			
Excess Life and AD&D Automatic Group	Swiss Re Life & Health America Inc.	For Group Life: \$150,000 per person For Group AD&D: \$150,000 per person	For Group Life: 100% excess of \$150,000 up to a maximum of \$1 million per person For Group AD&D: 100% excess of \$150,000 up to a maximum of \$1 million per person
Catastrophe Life/AD&D	Swiss Re Life & Health America Inc.	\$2 million per accident	Up to a maximum of \$10 million per accident; \$20 million in any agreement year, subject to one reinstatement

ACCOUNTS AND RECORDS

A review was made of the Company's general controls over its information systems. As a result of the review, some control deficiencies were noted in areas such as user access, change management, and logical security. The control deficiencies noted were presented to the Company along with recommendations to strengthen its controls in these areas. The Company should evaluate the recommendations and make appropriate changes to strengthen its information system controls.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2008

Summary of Operations and Capital and Surplus Account for the Year Ended
December 31, 2008

Reconciliation of Surplus as Regards Policyholders from December 31, 2003
through December 31, 2008

Statement of Financial Condition
as of December 31, 2008

	<u>Ledger and Non-ledger Assets</u>	<u>Non- Admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
<u>Assets</u>				
Bonds	\$ 23,655,601	\$	\$ 23,655,601	
Cash and short-term investments	3,293,821		3,293,821	
Contract loans	22,821		22,821	
Receivables for securities	113,451		113,451	
Aggregate write-ins for invested assets	1		1	
Investment income due and accrued	177,817		177,817	
Uncollected premiums and agents' balances in the course of collection	525,638		525,638	
Net deferred tax asset	<u>1,051,197</u>	<u>940,458</u>	<u>110,739</u>	
Total assets	<u>\$ 28,840,347</u>	<u>\$ 940,458</u>	<u>\$ 27,899,889</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for life contracts			\$ 92,828	(1)
Contract claims:				
Life			455,538	(1)
Accident and health			712,009	(1)
Premiums and annuity considerations for life and accident and health contracts received in advance			2,738	
Provision for experience rating refunds			267,748	
Interest maintenance reserve			389,230	
Commissions to agents due and accrued			19,610	
Commissions and expense allowances payable on reinsurance assumed			28,749	
General expenses due or accrued			60,319	
Taxes, licenses and fees due or accrued			255,283	
Current federal and foreign income taxes			512,806	
Remittances and items not allocated			128	
Payable for securities			972,029	
Aggregate write-ins for liabilities			<u>8,222</u>	
Total liabilities			\$ 3,777,237	
Common capital stock		\$ 2,543,450		
Gross paid in and contributed surplus		2,987,900		
Unassigned funds		<u>18,591,302</u>		
Capital and surplus			<u>24,122,652</u>	
Total liabilities, capital and surplus			<u>\$ 27,899,889</u>	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2008

Summary of Operations

Premiums and annuity considerations	\$ 3,632,164
Net investment income	1,150,865
Amortization of interest maintenance reserve	81,928
Aggregate write-ins for miscellaneous income	<u>8,783</u>
Total	<u>4,873,740</u>
Death benefits	813,125
Disability benefits and benefits under accident and health contracts	233,929
Increase in aggregate reserves for life and accident and health contracts	2,090
Commissions on premiums, annuity considerations, and deposit-type contract funds	225,035
Commissions and expense allowances on reinsurance assumed	170,773
General insurance expenses	490,547
Insurance taxes, licenses and fees, excluding federal income taxes	<u>59,000</u>
Total	<u>1,994,499</u>
Net gain from operations before federal income taxes	2,879,241
Federal income taxes incurred	<u>908,366</u>
Net gain from operations after federal income taxes	1,970,875
Net realized capital gains (losses)	<u>(107,461)</u>
Net income	<u>\$ 1,863,414</u>

Capital and Surplus Account

Capital and surplus, December 31, 2007	<u>\$22,201,126</u>
Net income	1,863,414
Change in net unrealized capital losses	(2,290)
Change in net deferred income tax	30,671
Change in nonadmitted assets	(40,568)
Change in asset valuation reserve	70,300
Aggregate write-ins for losses in surplus	<u>(1)</u>
Net change in capital and surplus for the year	<u>1,921,526</u>
Capital and surplus, December 31, 2008	<u>\$24,122,652</u>

Reconciliation of Capital and Surplus
from December 31, 2003 through December 31, 2008

Surplus as regards policyholders, December 31, 2003, per Examination			\$ 24,195,731
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 6,753,544	\$	
Change in net unrealized capital losses		2,290	
Change in net deferred income tax	1,089,818		
Change in nonadmitted assets		940,458	
Change in asset valuation reserve	26,308		
Dividends to stockholders		7,000,000	
Aggregate write-ins for gains and losses in surplus	<u> </u>	<u>1</u>	
Totals	<u>\$ 7,869,670</u>	<u>\$ 7,942,749</u>	
Net decrease in surplus as regards policyholders			<u>73,079</u>
Surplus as regards policyholders, December 31, 2008, per Examination			<u>\$ 24,122,652</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

- (1) Aggregate Reserve for Life Contracts
Contract Claims: Life
Contract Claims: Accident and Health

A Life Actuary from the California Department of Insurance performed an actuarial review of the reserves for the above liability accounts. Based on the work performed, the Company's December 31, 2008 reserves were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records (Page 6): It is recommended the Company evaluate the recommendations from the information systems review and make appropriate changes to strengthen its information system controls.

Prior Report of Examination

Corporate Records (Page 4): It was recommended that the Company implement in its board meetings to ensure compliance with California Insurance Code Sections 735 and 1201. The Company has complied with this recommendation.

ACKNOWLEDGEMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and Blue Shield of California's employees during the course of this examination.

Respectfully submitted,

/s/

Kyo Chu, CFE
Examiner-in-Charge
Senior Insurance Examiner
Department of Insurance
State of California